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TREASURY/OASIA/IMI/JAPAN; DEPT PASS USTR/PUBLIC AFFAIRS OFFICE;
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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 07/24/07

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Prime Minister's schedule, July 23

NIKKEI (Page 2) (Full)
July 24, 2007

07:00

Left Haneda Airport on ANA Flight 3711.

08:22

Arrived at Kumamoto Airport. Met with Education Minister Ibuki aboard the plane.

09:22

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Met with Kumamoto Gov. Shiotani at Misato Town Hall. Inspected the area devastated by heavy rains.

10:11

Gave words of encouragement to disaster victims at facility for the elderly.

11:02

Arrived at the LDP Kumamoto Hall in Kumamoto City.

11:26

Delivered street speech at Karashima Park.

13:53

Gave street speech at the south exit of JR Saga Station.

16:13

Delivered stump speech at Shimase Park in Sasebo City.

18:06

Stump speech in Nagasaki City.

19:12

Arrived at Nagasaki Airport and met with Finance Minister Omi.

19:55

Left Nagasaki Airport on ANA Flight 3742.

21:21

Arrived at Haneda Airport.

21:57

Attended election strategy meeting at LDP headquarters.

23:08

Returned to his official residence.

4) Defense Ministry to develop prototype stealth fighter to test technologies

YOMIURI (Page 1) (Full)
July 24, 2007

The Defense Ministry decided yesterday to include in its fiscal 2008 budgetary request funds to develop a manned prototype fifth-generation fighter jet equipped with stealth capabilities and other advanced technologies. With the production of F-2 support fighters, jointly developed by Japan and the United States, scheduled to end in FY2011, the ministry apparently plans to maintain the foundations for future technological development.

The ministry, by showing interest in developing jet fighters domestically, hopes to gain an edge in negotiations with the United States next summer when it selects Japan's next-generation mainstay

combat aircraft (FX).

According to the ministry, the envisioned prototype would be equipped with stealth technology and other advanced electronics that would make the plane difficult to detect by radar. As the prototype would not be installed with radars and weaponry, it is expected to be smaller than real fighter jets. The prototype is likely to be developed over about a 10-year period at an estimated cost of

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several tens of billions of yen.

The ministry has in principle purchased fighters from the United States in terms of costs and performance. The F-22 Raptor is considered to be one of the leading candidates for the ministry's next fighter jet request to the United States, though US law currently prohibits export of the stealth fighter and the US government therefore cannot provide information on the Raptor to the ministry.

The cost and capabilities of any domestically produced fighter would have to be thoroughly studied if full scale development is to take place. For this reason, the ministry has decided to develop a manned prototype first to prove technologies.

5) US concessions eyed behind plan to develop prototype stealth fighter

YOMIURI (Page 1) (Abridged slightly)
July 24, 2007

Commentary

Japan has not developed a domestic fighter since the F-1 support fighter jet in the 1970s. The idea of developing a domestically produced fighter was originally floated while the government was selecting an FSX plane to succeed the F-1, but Japan-US trade friction led the government to bend to US wishes on the issue. As a result, the two governments decided to jointly develop the F-2 support fighter jet. F-15 fighter jets, which form the core of the country's fighter force, are being manufactured in the country under a license agreement by which the government pays patents fees to and receives technical guidance from the United States for production.

Against this backdrop, some ministry officials have called for the development of domestic fighter jets as domestic technological development would otherwise come to a standstill when production of F-2 fighter jets ceases. Japan has expertise in advanced electronics, stealth materials and aviation control equipment, but a senior ministry official said because Japan does not have experience in assembling fighter aircraft from scratch, its fighter jets would not be effective as US warplanes.

Some ministry officials argue that since domestic fighters have not been considered as a candidate for the next FX fighter jet, the US government would not be swayed by the ministry's negotiation strategy of parlaying its interest in developing domestic fighter jets to win concessions from the US government, including discounts and a review of its domestic law.

It also is unclear whether the production of a prototype would eventually lead to the development of domestic warplanes.

Developing fighter jets is hugely expensive, as evidenced by the more than 320 billion yen allocated for the development of the F-2 support fighter jet, a budget that far exceeded earlier estimates.

It is also unclear if the aircraft can have sufficient capabilities.

As the US government could be reluctant to see warplanes manufactured in Japan, some observers argue the ministry should

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produce only a prototype for the time being.

6) Kelly reveals plan to begin construction work at Iwakuni in 2010 for relocating carrier-borne aircraft from Atsugi

TOKYO SHIMBUN (Page 3) (Full)
July 24, 2007

Rear Adm. James Kelly, commander of US naval forces in Japan, revealed in his meeting with reporters yesterday a plan to produce an official plan by the end of fiscal 2008 on the planned relocation of carrier-borne aircraft from the US Navy's Atsugi base in Kanagawa Prefecture to the Iwakuni base in Yamaguchi Prefecture to start building necessary facilities at the Iwakuni base in 2010.

Commander Kelly is in charge of the relocation plan. In May 2006, Japan and the United States produced a final report on the realignment of US forces in Japan specifying that the relocation must be completed by 2014. No specific timetable for the relocation was revealed, however.

As challenges for the relocation, Kelly cited: (1) establishing airspace for training near the Iwakuni base, and (2) securing space for facilities, aircraft hangars, and housing on the Iwakuni base where 95% is already in use. The commander said: "We would like to produce rough plans by the end of this year to push ahead with the relocation speedily after obtaining concurrence of USFJ and the Japanese government."

7) "Even if LDP loses Upper House race, prime minister will not step down," many LDP members say

TOKYO SHIMBUN (Page 2) (Full)
July 24, 2007

While the observation is growing that the ruling coalition will likely lose its majority in the House of Councillors, yesterday some in the ruling Liberal Democratic Party (LDP) raised the view that Prime Minister Shinzo Abe should stay in office even if the ruling camp is defeated in the July 29 Upper House election.

Former Prime Minister Junichiro Koizumi delivered a speech in the city of Kagoshima, in which he emphasized, saying:

"I want Mr. Abe to stick it out. He would be criticized if he quits his job when he is at the bottom. I want him to fulfill his duty, thinking of it as test of his character."

Yoshimi Watanabe, state minister in charge of administrative reform, also stated:

"The prime minister will not step down from his post because of the outcomes of the Upper House election. The view that he should resign is an old notion that existed during the period of the medium-size electoral system."

Watanabe also indicated the possibility of Abe dissolving the House of Representatives in the fall or later, noting, "Should he fail to manage his government in the end, voters would choose the party they feel should hold the reigns of government."

8) 2007 Upper House race: LDP-New Komeito cooperation deepens, while

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there is discord at election sites

TOKYO SHIMBUN (Page 2) (Excerpts)
July 24, 2007

The ruling Liberal Democratic Party (LDP) and its coalition partner New Komeito set up "districts for election cooperation" for the first time, aiming at stepping up their election cooperation. However, the more they strengthen their solidarity, the more discord deepens between the two parties.

Since the LDP and New Komeito formed a coalition government in 1999,

the two parties have joined hands in three House of Representatives elections and two House of Councillors races.

In the past elections, the New Komeito recommended LDP candidates running in electoral districts where it did not field its own candidates, while the LDP backed the New Komeito in the proportional-representation segment.

In the upcoming Upper House election, the New Komeito has recommended LDP candidates running in constituencies other than five prefectural districts where the party has fielded its own candidates, and the prefectures of Ibaraki and Miyazaki.

Meantime, the LDP Gunma and Kumamoto chapters have gone beyond simply exhorting supporters to vote for New Komeito in proportional representation and have actually recommended specific New Komeito candidates. The LDP Oita and Kagoshima chapters have supported the New Komeito's proportional representation candidates.

It is extremely unusual for the LDP to recommend or support candidates of other parties in the proportional representation section of the election.

The secretaries general of the two parties agreed to designate the Aichi, Saitama, and Chiba prefectural districts (each with three seats) as election cooperation districts. The LDP supports the New Komeito in the Aichi and Saitama districts, in which both parties fielded their own candidates, while the New Komeito backs the LDP in the Chiba district, in which the LDP filed two candidates, aiming to win two seats by the two parties.

The reason for the LDP and New Komeito stepping up cooperation is that the ruling coalition is facing an uphill battle due to the plunge in support for the cabinet of Prime Minister Shinzo Abe.

However, there is discord among candidates.

9) Interim tally: 4 million voters -- 1.5 times previous Upper House election -- already cast ballots in 10 days

YOMIURI (Page 2) (Full)
July 24, 2007

The Ministry of Internal Affairs and Communications yesterday released its interim tally of the number of voters who have already cast their ballots for the July 29 House of Councillors election. A total of 3,999,300 voters cast ballots in the 10 days from July 13 through 22 across the nation. Compared with the figures of the 2004 Upper House race, the total is up 54%. If this pace continues, it is certain that the final number of voters who vote early will exceed

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the 7.17 votes cast in the previous election.

Looking at each prefecture, in Tokyo 366,826 voters -- the largest number nationwide -- cast their votes, followed by 275,398 in Osaka, and 269,768 in Kanagawa Prefecture.

Compared with the numbers of the interim tally in the previous election, the number of early voters was up 4.06-fold -- the highest -- in Gunma Prefecture, followed by 2.2-fold in Toyama, and 2.16-fold in Okinawa. However, the number of voters decreased in Kochi and Miyazaki Prefectures due probably to the recent typhoon.

Early voting will be conducted until July 28, the eve of the Upper House election, from 8:30 a.m. through 8:00 p.m. at early polling stations in municipalities across the nation.

10) Niigata earthquake caused 1.5 trillion yen damage, of which 700 billion yen related to suspension of nuclear power plant

TOKYO SHIMBUN (Top play) (Excerpts)
July 24, 2007

The Niigata prefectural government yesterday said that the recent earthquake that hit Niigata Prefecture has caused damage to the

prefecture estimated at some 1.5 trillion yen, nearly half of which is linked to the temporary suspension until next March of Tokyo Electric Power Company's (TEPCO) Kashiwazaki-Kariwa nuclear power plant.

The prefectural government explained that "TEPCO's estimated damage has been included to show how much impact a disaster that occurred in an area housing a nuclear power plant would have on the prefecture." In addition, some 100-200 billion yen is estimated as damage caused by harmful rumors about nuclear power plant troubles, demonstrating how serious it is once a disaster hit a nuclear power plant.

A man who was seriously injured in an accident that occurred in a factory soon after the earthquake died yesterday, increasing the number of deaths to 11.

The prefectural government has estimated damage to commerce and industry, such as tourism, at 300 billion yen, buildings and plants, including housing, at 200 billion yen, infrastructure, such as roads and railways, at 70 billion yen, agriculture, fisheries, and forestry, such as the fisheries industry, at 40 billion yen, and lifelines, such as water and gas, at 10 billion yen.

11) Chuetsu earthquake: Building accommodating no. 6 nuclear reactor at Kashiwazaki nuclear plant found to have structural defects; Water leakage not anticipated

YOMIURI (Page 1) (Excerpt)
July 24, 2007

Water stored in a pool for spent fuel from no. 6 nuclear reactor at Tokyo Electric Power Co.'s (TEPCO) Kashiwazaki-Kariwa nuclear power plant spilled out in the Chuetsu Earthquake in Niigata Prefecture, causing part of the water containing radioactive substance to leak out into a non-control area and to be released into the sea. The Nuclear and Industrial Safety Agency (NISA) yesterday came up with the estimation that there were some structural defects on the 4th

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floor of a building accommodating the nuclear reactor, where the pool in question was installed. NISA Director General Yasuhisa Komoda inspected the nuclear plant the same day and pointed out that there were many things that need improvement, including the fire safety system and the communication system in the event of leakage of radioactive substance." He indicated an outlook that it would take a fairly long time before the nuclear power plant can resume operation, noting, "It is not yet the time to consider resuming operation."

12) Gang member and others arrested on charges of human trafficking involving Japanese women in Tochigi Prefecture

ASAHI (Page 35) (Full)
July 24, 2007

The Tochigi Prefectural Police yesterday said that on July 21, they arrested four people, including a gangster, on charges of human trafficking for selling a Japanese woman from one adult entertainment shop to another, and that they sent them to the Utsunomiya District Public Prosecutors Office's Tochigi Branch on the same charges yesterday.

It is the first time since the establishment of the Human Trafficking Law in July 2005 that the police detected a human trafficking case in which the victim has been a Japanese woman.

The people who have been set to the prosecutors are Wataru Kurihara (26), a member of a gang affiliated with the Sumiyoshi-kai crime syndicate and a manager of an adult entertainment shop, who lives in Nishigo in Moka City, Tochigi Prefecture; Minoru Kimura (24) of no fixed address, a former chief of an adult entertainment shop; Lee Min Yong (38) of South Korean nationality, a manager of an adult entertainment shop, who lives in Oyama in Oyama City in the prefecture; and Yuzuru Saito (29) of no fixed address, a member of a gang affiliated with the Sumiyoshi-kai crime syndicate and a manager

of an adult entertainment shop.

According to the police investigation, Kurihara and Kimira are suspected of having sold a woman (who was then 21) working at a sex-related business run by Kurihara to suspects Lee and Saito at a price of over one million yen. Lee is suspected of having bought the woman in order to have her work at a sex shop he ran.

13) Policy headquarters established in Foreign Ministry apparently to check Land Ministry

NIKKEI (Page 2) (Full)
July 24, 2007

With the Basic Law of the Sea aimed at reducing red tape in policy-making taking effect on July 20, the Ministry of Foreign Affairs (MOFA) established a Foreign Policy Headquarters on the Sea, which is headed by Vice Foreign Minister Shotaro Yachi. The secretariat chief of the headquarters is the director-general of the

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Economic Affairs Bureau. This new office consists of some 20 bureau director-general-level members.

A Comprehensive Policy Headquarters on the Sea composed of officials from government ministries, including MOFA, the Defense Ministry, and the Ministry of Land, Infrastructure and Transport (MLIT), was also set in motion. The chief of this office is the prime minister,

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with the posts of deputy chiefs assumed by the chief cabinet secretary and the minister of land and infrastructure and transport.

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The foreign minister joins the office as a member, a status lower than the deputy chief.

MOFA says it intends to engage in policy-making in view of international law and treaties, but some believe that MOFA established its new headquarters to check the MLIT.

14) Government plans to revise tax system for consolidation of farmland

NIHON KEIZAI (Top Play) (Excerpts)
July 24, 2007

The government has started looking into the possibility of revising preferential tax measures concerning inheriting and transferring farmland with the aim of promoting the effective use of farmland. Under the plan, those who inherit farms and do not plan to continue farming will be exempt from taxes if they lease the land to large operators. The aim is to promote large-scale farming. The government will apply no preferential tax measures on unused farmland in order to encourage effective use of farmland, which is lower than foreign countries, through the tax system. It will strengthen the international competitiveness of Japan's agriculture by enhancing its productivity.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) will incorporate revisions of the preferential tax system for farmland in its tax reform requests for fiscal 2008 for detailed discussions by the government's Council on Economic and Fiscal Policy and the Tax Research Commission reporting to the prime minister.

Under the current preferential measures for the inheritance tax, inheritors of farmland are given a moratorium and exemption from taxes if they continue operations for 20 years. Under the envisaged preferential tax system, inheritors would be eligible for preferential measures even if they do not maintain operations, provided that they lease their farmland to large operators. The definition of large operators eligible for this scheme is collective operators with more than 20 hectares of farmland and individual farmers with more than 4 hectares of farmland.

The government envisages that this measure would boost the leasing

of farmland by part-time farmers who have difficulty finding heirs to take over their households, accelerating the consolidation of farmland under large-scale farmers.

SCHIEFFER